

ARIZONA CORPORATION COMMISSION MEETING MINUTES

DATE: August 20, 2004

TIME: 9:30 a.m.

PLACE: Arizona Corporation Commission, 1200 W. Washington Street, Room 100, Phoenix, Arizona 85007

ATTENDANCE: No Quorum of Commissioners. Commissioner Hatch-Miller attended. See list in Attachment 1.

TOPIC: DSM WORKSHOP

MATTERS DISCUSSED:

Barbara Keene of the Commission Staff welcomed everyone. Each participant made a self-introduction.

The first item up for discussion was the August 19, 2004 letter from DRAM (Demand Response and Advanced Metering Coalition) to Chairman Marc Spitzer.¹ Philip Dion, Advisor to Chairman Spitzer, provided copies of the letter and addressed the group. The letter underscores the ongoing question as to whether or not Demand Response programs will be included in the DSM policy and potential DSM program portfolios. Several utilities' representatives stated that as they begin to plan and develop their DSM portfolios, they need to know whether Demand Response initiatives will be acceptable components of their potential DSM portfolio. In general, the entire group expressed the desire to focus on this issue in a separate workshop scheduled for September 14, 2004 at 9:30 a.m. Important discussion items include defining demand response, DSM funding eligibility of demand response initiatives, and the role of demand response programs in the DSM portfolio as opposed to treating them as separate tariff rates.

Next, Ed Fox of APS addressed a proposal to revise the draft policy statement regarding the measurement of environmental externalities in the *Cost Effectiveness* section. Representatives from APS and TEP both discussed concern about the current statement that "At a minimum, air emissions and water consumption will be quantified (*both physical units and economic value*)."¹ APS pointed out that currently there is no guidance or policy that addresses the appropriate methodology to measure the values of environmental externalities. If the utilities are required to measure these values and include them in the portfolio proposal, can the Commission or any other party contest the values as measured and can this be grounds for program denial? Jeff Schlegel of SWEEP indicated that SWEEP would not object to a program proposal on the basis that the estimated value of environmental externalities was incorrect. However, SWEEP believes that programs from utilities should include a quantitative assessment of environmental externalities because they are non-zero. After a productive discussion of this topic, the group

¹ E-00000A-02-0051, E-01345A-01-0822, E-00000A-01-0630, E-01933A-02-0069

proposed new language to replace the above quoted phrase. The Cost Effectiveness section of the draft policy now states that, “At a minimum, utilities will make a good faith effort to quantify water consumption savings and air emissions reductions until such time that an environmental externalities quantification procedure is adopted by the Commission.”

Following these two major topics, the group turned to the draft DSM policy. Along with some minor revisions to the draft, the group addressed several important issues.

Applicability

As currently worded, the draft policy is applicable to all class A electric and gas utilities subject to the jurisdiction of the Commission. This implies that a transmission-only company such as Southwest Transmission Company would be required to participate in the DSM program. The group discussed the pros and cons of requiring participation by transmission-only companies. The group also contemplated the manner in which a transmission-only company would be excluded from the DSM requirements if that is the ultimate policy decision of the Commission.

Goals and Objectives

The group added “amount of spending” to the list of examples of policy goals. Three objectives were merged into one.

Planning

Workshop participants agreed that the filing requirements (whether annual or bi-annual) for DSM portfolio plans is an issue that will not be unanimous. Ultimately, it is likely that Staff will recommend a time-line for filing plans in its report and note that there is dissent among the interested parties.

Cost Effectiveness

How will DSM programs for which the benefits are not easily quantified be evaluated?

Representatives from the large utilities gave examples of various education programs that do not necessarily have an associated reliable estimate of energy savings. The concern is that the cost effectiveness section of the draft policy does not account for these types of programs. Tom Hines of APS volunteered to draft language to address these concerns.

Savings Estimation/Baseline Estimation

The title of this section was changed from Savings Estimation to Baseline Estimation. Jeff Schlegel volunteered to draft a more detailed description of the different baselines to be used to estimate the benefits of DSM programs.

Non-allocatable Items

Representatives of the utilities expressed the desire that the draft DSM policy state explicitly that costs not directly related to specific DSM programs such as initial portfolio planning and common portfolio costs are recoverable under DSM funding. This led to a lengthy discussion of the possible accounting methodologies that could be used to record plan expenses and revenues. APS volunteered to draft language to address the allowance of general DSM planning and implementation expenses. The title of the section was changed to DSM Accounting Principles. The first sentence was revised and moved to the Cost Recovery section.

Reporting Requirements

The group consensus is that this section of the draft policy needs more detail regarding the content of required reports. Additionally, the group discussed the possibility of three brief quarterly reports and one large annual report versus two cumbersome semi-annual reports. Utility representatives expressed concern that all of this reporting would be very redundant in light of other reporting requirements such as the energy conservation plan requirements under R14-2-213.

Key Terms

The group discussed David Berry's proposed revisions to this section. Jeff Schlegel and David Berry will draft revised language to cover "incremental costs" and "net benefits". The group discussed the manner in which the different cost-effectiveness test definitions might best be presented. One suggestion is to include a table in the draft policy to help compare and contrast each cost-effectiveness test.

Commission Review and Approval

Language in this section that deals with filing requirements and timing will be merged with the Planning section. The revised Commission Review and Approval section will address the approval process and formalize the time line and process of program implementation upon Commission modifications.

Parity and Equity

The group did not follow-up on the discussion from the previous meeting of the possibility of an opt-out for large customers. Mike McElrath of Phelps Dodge had previously offered to prepare working on this subject but was unable to attend this workshop.

A Demand Response Workshop will be held on September 14, 2004 from 9:30 a.m. to 4:00 p.m.

The next DSM Workshop will be held on September 23, 2004 from 9:30 a.m. to 4:00 p.m.

Erin Casper
Utilities Division

Attendees at the DSM Workshop
August 20, 2004

Name	Organization
David Berry	Western Resource Advocates
Jana Brandt	Salt River Project
Erin Casper	Arizona Corporation Commission Staff
Rebecca Chavez	Tucson Electric Power/UNS Electric
Tim Coley	Residential Utility Consumer Office
David Couture	Tucson Electric Power
Dennis Criswell	Arizona Electric Power Cooperative
Philip Dion	Advisor to Chairman Spitzer
Ed Fox	Arizona Public Service
Charlie Gohman	Arizona Energy Office
Tom Hines	Arizona Public Service
Grant Holmes	ANL Distributors/Volttech, Inc.
Marshall Hunt	RHA
Barbara Keene	Arizona Corporation Commission Staff
Barb Klemstine	Arizona Public Service
Steve Koepp	AHS
A.K. Krainik	Arizona Public Service
Paul Li	Bob Lynch
Barbara Lockwood	Arizona Public Service
Bill Murphy	Murphy Consulting
Brian O'Donnell	Southwest Gas
Terry Orlick	Arizona Public Service
Amanda Ormond	Ormond Group
Greg Patterson	Arizona Competitive Power Alliance
Karilee Ramaley	Pinnacle West / APS
Jesus M. Reza	Morenci Water & Electric
Russ Romney	Martinez & Curtis
Jeff Schlegel	Southwest Energy Efficiency Project
Vivian Scott	Southwest Gas
Kathy Senseman	Southwest Gas
Eric Treese	ON Semiconductor
John Wallace	Grand Canyon State Electric Coop Association
Ray Williamson	Arizona Corporation Commission Staff
Martha Wright	Southwest Gas